McGraw-Hill Ryerson Limited

2000

Annual Report





EEPING THE WORLD UP TO SPEED • KEEPING THE WORLD UP TO SPEED • KEEPING THE WORLD UP TO SPEED • KEEPING THE WORLD UP TO SPEED

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Corporate Profile

McGraw-Hill Ryerson Limited has a long and illustrious history. It is built on the solid foundations of two respected publishing companies — the McGraw-Hill Book Company, currently known as The McGraw-Hill Companies, Inc., and The Ryerson Press.

McGraw-Hill Ryerson publishes and distributes educational and professional products in both print and non-print media. These products are designed to fulfill the individual needs of customers by providing effective and innovative educational and learning solutions. Product offerings include text and professional reference books, multimedia tools, and teaching, assessment, support and monitoring solutions.

The Company is structured on a market-focus basis and operates in four primary market areas:

- Post-secondary education, including universities, community colleges and career colleges
- Elementary and secondary schools
- General interest non-fiction, business, and computer disciplines
- Training and Professional Development

McGraw-Hill Ryerson is a public company operated independently, in close cooperation with various divisions and international subsidiaries of its majority shareholder, The McGraw-Hill Companies, Inc. Through this cooperation, the Company benefits from its access to the significant product, market, and operational expertise of The McGraw-Hill Companies, Inc.

McGraw-Hill Ryerson publishes and distributes under the following highly respected and well-recognized imprints:

Amacom
New York, New York

American Management Association
New York, New York

Berrett-Koehler Publishers
San Francisco, California

Books on Tape
Newport Beach, California

Business Week Books
New York, New York

Chenelière McGraw-Hill
Montreal, Quebec

Glencoe/McGraw-Hill
Columbus, Ohio

Harvard Business School Press
Cambridge, Massachusetts

Harvard ManageMentor
Cambridge, Massachusetts

International Marine
Maine

Irwin/McGraw-Hill
Burr Ridge, Illinois

Jamestown Education
U.S.A.

Learning Triangle Press
New York, New York

McGraw-Hill
New York, New York

McGraw-Hill Lifetime Learning
Lexington, Massachusetts

McGraw-Hill Ryerson Limited
Whitby, Ontario

McGraw-Hill Ryerson Limited
Whitby, Ontario

MedMaster, Inc.
Miami, Florida

Open Court
Ohio

Osborne
California

Ragged Mountain Press
Maine

Rockport Publishers
Rockport, Massachusetts

Schaum's
New York, New York

SRA/McGraw-Hill
Columbus, Ohio

Tab
New York, New York

W.I. Publications
San Diego, California

Xebec
Lexington, Massachusetts

Xebec Online
Lexington, Massachusetts

Vision

To be recognized as the leading Canadian publisher of educational resources and information products and services for lifelong learning and enjoyment.

Mission

To be the Canadian leader in developing and marketing quality information products and services to selected educational, professional, and consumer markets through innovation and teamwork. We will provide exceptional value to customers, growth and recognition opportunities for employees, and outstanding financial performance to our shareholders.

Culture

At McGraw-Hill Ryerson, we will work together to:

- strive to exceed our customers' expectations, by recognizing and anticipating their needs
- meet challenging but achievable company objectives and financial goals, with well-planned and clearly communicated strategies
- continually improve McGraw-Hill Ryerson's image in the marketplace, through the promotion of creative ideas and the development of targeted, innovative products
- encourage a winning spirit and a positive working environment, through the development of supportive, appreciative, and rewarding working relationships
- create a market-driven organization
- reward creativity, innovation, and risk-taking
- recognize diversity by treating individuals with respect and dignity

McGraw-Hill Ryerson at a Glance

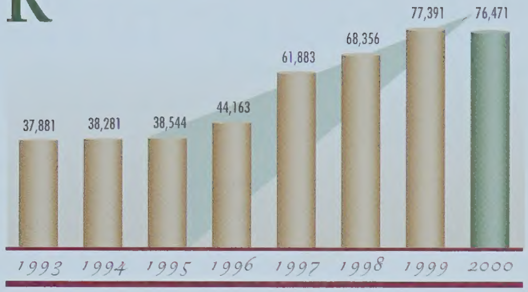
	KEY MARKETS	PRIMARY PROGRAMS	KEY ISSUES AND TRENDS	OUTLOOK
Higher Education Division	Universities Community Colleges Career Colleges	Business Economics Computer and Information Technologies Science Engineering English Psychology Social Sciences	Enrolments are stable. Use of course websites has increased dramatically. 53% of over 600 instructors surveyed consider instructional technology "extremely important." Increased performance and service expectations for technology-based products. E-books will become the top alternative format for up to 20% of the market.	Growing and broadening demand for technology-based learning resources. E-commerce technologies expected to impact traditional distribution channels. Establishing customer relationship management programs.
School Division	Secondary Schools Elementary Schools	Mathematics Science Social Studies English Information Science Special Education	Very low growth in student enrolment. Flat government spending on education. Focus on requirement to improve standards of academic achievement and accountability. Movement towards centralized curriculum.	Increased focus on accountability for learning outcomes. Increased demand for customized products. Growing interest in multimedia products and technological support.
Trade, Professional and Medical Division	Booksellers Distributors Libraries Non-traditional Booksellers Direct to Professionals	Business Computer General Interest Scientific Technical Medical Training	Consolidation of book superstores. Demand for technical and professional information in print and electronic formats. Demand for computer titles. Growth in SOHO market. Competition from online retailers.	Increasing purchase power of national accounts. Escalating demand for timely information. Pressure on availability, price, and service caused by the migration to online sourcing and purchasing. Market expansion. Increasing demand for digital versions.
Chenelière/ McGraw-Hill	By publishing under a joint imprint, McGraw-Hill Ryerson Limited and Les Éditions de la Chenelière are able to concurrently publish French and English editions of secondary and post-secondary titles.			

Financial Highlights

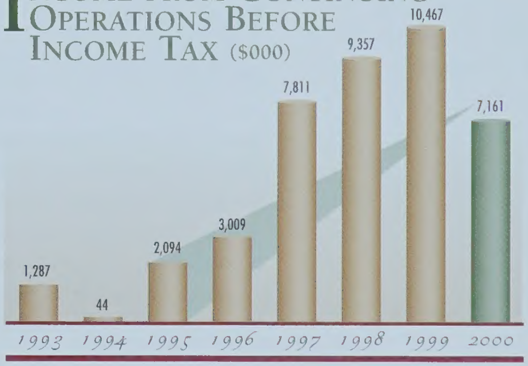
(In Thousands of Dollars, except Per Share Data)

	2000	1999	1998	1997	1996
Revenue and Earnings					
Revenue	$ 76,471	$77,391	$68,356	$61,883	$44,163
Net income	$ 4,639	$ 5,849	$ 5,207	$ 4,448	$ 1,617
Cash Flow					
Cash (used in) provided by operating activities	$ (294)	$12,312	$ 7,305	$ 5,390	$ 7,058
Capital expenditures	$ 1,185	$ 968	$ 541	$ 1,046	$ 496
(Decrease)/increase in cash position	$ (8,120)	$ 7,872	$ 4,428	$ 2,419	$ 3,342
Closing Financial Position					
Shareholders' equity	$ 48,891	$46,006	$41,155	$36,747	$32,698
Total assets	$ 73,821	$74,689	$62,348	$55,005	$55,103
Per Common Share					
Net earnings	$ 2.32	$ 2.93	$ 2.61	$ 2.23	$ 0.81
Dividends	$ 0.54	$ 0.50	$ 0.40	$ 0.20	$ 0.20
Book value	$ 24.48	$ 23.04	$ 20.61	$ 18.40	$ 16.38
Market value at December 31	$ 16.00	$ 22.75	$ 22.00	$ 17.50	$ 11.00
Financial Ratios					
% Return on average assets	6%	9%	9%	8%	3%
% Return on sales	6%	8%	8%	7%	4%

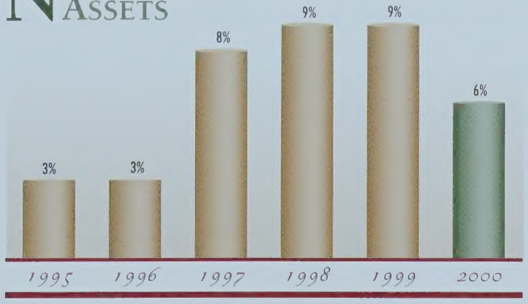
Revenue ($000)



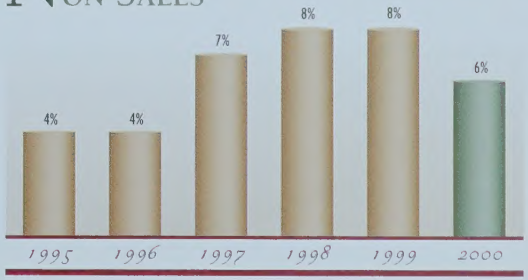
Income from Continuing Operations Before Income Tax ($000)



Net Income Return on Average Assets



Net Income Return on Sales



Message to the Shareholders

Fiscal 2000, while disappointing with respect to profits in comparison to the prior year, saw positive achievements in our educational markets offset by the impact of extreme volatility and uncertainty in the Trade market. The School and Higher Education Divisions achieved encouraging growth rates and increased their share in the markets in which they compete. Under the circumstances faced, the Trade Division implemented extreme measures to somewhat mitigate the negative impact of the market volatility.

We are witnessing significant growth in our education markets.

As we head into 2001, with the recent high-profile consolidation in the retail market, we are confident that a sense of stability will once again return. We have been cautious in our approach to planning in this area of the business. There is an evident sense of urgency in both the public and private sectors to respond to the growing need for effective use of digital technology for learning, and to maintain the unparalleled quality of Canadian education. Spending in educational sectors of the economy is rising, and the number of students embarking on post-secondary education is forecast to grow by approximately 5% over the next five years.

Our strength and success in the Canadian marketplace is a testimony to the quality of our intellectual property.

The primary driver of the Company's growth over the last several years has been our consistent focus on transforming the Company into a market-driven entity. We are alert to the needs of our customers in every respect and the quality of our products and services continues to grow. As a result, we are witnessing significant growth in our education markets.

Our strong working relationships throughout The McGraw-Hill Companies, Inc. continue to provide us with access to an extensive array of resources and expertise. The effective leverage of these resources and expertise, coupled with the vast capabilities and creativity of McGraw-Hill Ryerson's work force, is a cornerstone of our success.

John D. Dill, President and Chief Executive Officer, and H. Ian Macdonald, Chairman of the Board.

Our strength and success in the Canadian marketplace is a testimony to the quality of our intellectual property. It is appropriate to recognize the outstanding contribution of our authors, who include some of the brightest and most highly recognized of Canadian educators and academics.

The digital economy has presented tremendous opportunities and challenges for McGraw-Hill Ryerson. The vast majority of our educational products now encompass digital components, and the service areas of the business have been relentless in embracing new technologies to improve the customer experience. The Company sees e-business as a means to expand the size of our customer base, broaden the formats in which our products are presented, and enhance our level of service and efficiency. In response to this opportunity, McGraw-Hill Ryerson is participating in the McGraw-Hill Companies Global Transformation Project which, when implemented, will give us unparalleled ability to meet the needs of our customers in 2002.

Recent indications of weakening in the Canadian economy have reinforced our decision to focus on our core strengths and competencies. During the year ahead we expect to see extreme competition in the education market; however, we are confident that the quality of our product and service will once again lead to favourable results.

In closing, we would like to commend each and every member of McGraw-Hill Ryerson for having worked tirelessly to transform the Company into a market leader and for having embraced change during challenging times. These qualities have positioned the Company admirably to face the future.

H. Ian Macdonald, O.C., LL.D., D.UNIV., D.LITT.
Chairman of the Board of Directors

John D. Dill
President and Chief Executive Officer

Corporate Governance

A primary concern of the Corporation's Board of Directors has been, and will continue to be, the effective governance of McGraw-Hill Ryerson Limited on behalf of shareholders. The Corporation's Corporate Governance Committee meets regularly to review corporate governance matters. A review of the Corporation's governance policies begins on page 8 of the Management Information Circular that accompanies this Annual Report.

Higher Education Division

Sales Growth

During 2000, the Higher Education Division gained a market share increase of 2% with sales growth of over 6%. Contributing to the year's success was the strong performance of both the Canadian list, which increased 12.5% over the prior year, and several key disciplines in the imported list, including Computer Applications, which increased over 30%, and Chemistry, which increased 80% this year. The key to our success continues to be our outstanding sales, marketing, and editorial talent, combined with leading media technology programs, customer relationship management skill, and the commitment to and delivery of service excellence.

The Higher Education Division continued to expand the range of E-learning products for both faculty and students.

Leading Technology Solutions

The higher education marketplace is well suited to transformation using today's digital technologies. A recent study on technology in the classroom noted that 52% of instructors identified instructional technology as a high priority and 23% used a course-management application, while perceptions of the usefulness of E-books increased fourfold over the past year.

In response to growing customer need for web-based educational products and services, the Higher Education Division continued to expand the range of E-learning products for both faculty and students. Online Learning Centres and Web CT or Blackboard content cartridges now accompany all titles. We marketed over 40 imported E-books in 2000 and developed two Canadian E-books in Introductory Psychology. PageOut, our own course-management application, now has over 7,500 Canadian registrants, and recent surveys show that PageOut has already become the third most popular course-management system in Canada. Finally, we launched Primis Online to the Canadian market in the fall. This service enables faculty to create customizable McGraw-Hill E-books that can then be delivered to students electronically as a download or as a print product.

We also strive to effectively leverage database and Internet technology to enhance customer satisfaction.

In addition to our educational technology products, we also strive to effectively leverage database and Internet technology to enhance customer satisfaction and relationships. This year, we launched our new Higher Education website with E-commerce capability and expanded our E-marketing capabilities with great success.

Canadian Publishing Program

The Canadian publishing program generated 12.5% growth over prior year, publishing 31 titles this year including seven first editions. Outstanding performance by marquee titles like Berkowitz: *Marketing* 4/C/e, Nickels: *Understanding Canadian Business* 3/e, Ross: *Fundamentals of Corporate Finance* 3/C/e, and Larson: *Fundamental Accounting Principles*, 9/C/e in its second year, contributed greatly to our success.

Our commitment to Canadian publishing remains firm. This year, we invested in a Science, Mathematics, and Engineering publishing team to strengthen our position in these disciplines. Total signings for the Division exceeded our objective by 18%. Once again, several members of our editorial team were recognized by the International Publishing Group of The McGraw-Hill Companies, Inc. and received a number of awards including Best Local Product, Best Revision, and International Editor of the Year.

Business Uncertainties

We will continue to monitor the evolution of student online purchasing trends and the associated changes to our operational model. As educational technologies mature, we will need to monitor potential blurring of traditional industry boundaries that may result in the entry of new competitors. This trend is already evident in the computer applications disciplines, where we compete with new vendors with different business models. The full impact of course-management applications and student-directed learning trends on the long-term perceived value of the traditional textbook is also being monitored.

OUTLOOK

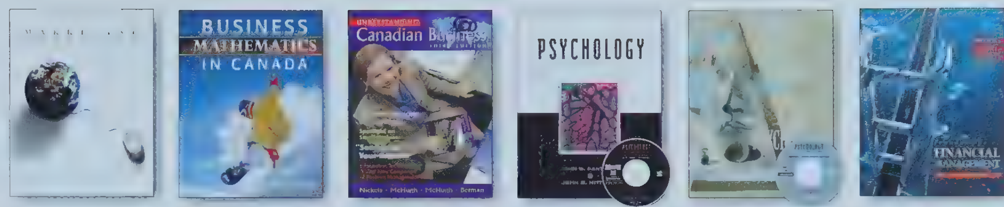
The Higher Education Division expects enrolments to increase by 1% in 2001 and demand for educational technology product and quality content to continue to grow. We believe there will be opportunity for growth in the career college market. In addition, we will complete the integration of the recently acquired Mayfield list by The McGraw-Hill Companies, Inc., which will generate substantial additional revenue for the Division this year.

In this technology-mediated environment, the quality of our online and offline customer relationships and customer loyalty are critical to our organization's long-term success. As a result, in 2001, we will be placing unprecedented emphasis on strengthening relationships with our customers by improving our technology-based customer interface and offering value-added services currently unmatched by any of our competitors. We will also be working hard the old-fashioned way, meeting with customers face to face on campus and asking questions to better understand and serve their emerging needs. Overall, we aim to exceed faculty, author, bookstore, and student expectations.

Finally, this year we pursue our key objectives to grow at a faster rate than the industry, and to be recognized as the best place to work in Canadian educational publishing, particularly for hard-working, technologically savvy, and creative individuals who wish to grow professionally.

Some of the best-selling titles for the Higher Education Division in 2000 were as follows:

1. *Berkowitz, Crane, Kerin, Hartley and Rudelius,* Marketing, *Fourth Canadian Edition*
2. *Jerome,* Business Math in Canada, *Third Edition*
3. *Nickels, McHugh, McHugh, Berman,* Understanding Canadian Business, *Third Edition*
4. *Santrock, Mitterer,* Psychology, *First Canadian Edition*
5. *Wortman, Loftus, Weaver, Atkinson,* Psychology, *Alternate Edition for Canada*
6. *Block, Hirt, Short,* Foundations of Financial Management, *Fifth Canadian Edition*



School Division

Sales Growth

The School Division enjoyed another successful year in 2000 in part as a result of the $30 million investment in textbooks by the Ontario Ministry of Education and Training to support the implementation of new Grade 10 curricula in Science, Mathematics, Language Arts, and History/Social Studies. The School Division captured over 50% of the Grade 10 mathematics market with MATHPOWER™ *10, Ontario Edition and* Mathematics: Applying the Concepts. *The Division's success was not limited to the Ontario market.* MATHPOWER™ *12, Western Edition, was adopted by 65% of Alberta schools — a market previously dominated by a single competitor. The* SCIENCEPOWER™ *series for Grades 7–10 continued to enjoy success across Canada with Grades 7–9 capturing significant market share in Manitoba, and Grades 9 and 10 being adopted province-wide in Nova Scotia. The Glencoe product list continued to perform strongly and the market acceptance of this line provided diversification to the Division's product offerings.*

arch results have gnificantly fluenced the Division's publishing program and marketing strategies for 2000 and 2001.

Leading Educational Solutions

The School Division continued to invest in subject- and course-specific market research during 2000, including focus groups, quantitative surveys, advisory boards, interviews, and classroom testing of draft student and teacher material. Research results have significantly influenced the Division's publishing program and marketing strategies for 2000 and 2001. The Division's ongoing relationship with Chenelière/McGraw-Hill resulted in the concurrent publication in both English and French of four text books for the Ontario Grade 10 curriculum: *OMNISCIENCES 10, OMNIMATHS 10, Regard sur le Canada,* and *Horizons 2000+.* The Company's ongoing ability to present products in both official languages is projected to create a distinctive long-term competitive advantage. The Division will continue to implement this strategy in 2001 with the publication of six additional titles.

Resource development will integrate print and electronic formats to support both teachers and learners.

Business Uncertainties

While funding remains stable in Western and Atlantic Canada, curriculum implementation timelines, particularly for Grades 7–10 science in Atlantic Canada, are in a state of flux. In 2000, the Ontario Ministry of Education and Training announced a $15 million investment in textbooks to support implementation of the new Grade 11 curriculum in the 2001–2002 school year. While this is a significant investment in learning resources, it represents a decline in funding from that allocated to Grade 10 curriculum implementation. The Government of Ontario has not yet indicated its strategy toward education funding in the future. The School Division is poised to compete in the Grade 11 Ontario market with seven new Canadian titles, five of which will support two of the three funded disciplines: mathematics and science.

Canadian Publishing Program

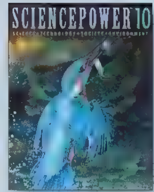
In 2001, the School Division is entering the senior high school science market for the first time with three titles published for the Ontario Grade 11 curriculum: *McGraw-Hill Ryerson Physics 11; McGraw-Hill Ryerson Biology 11;* and *McGraw-Hill Ryerson Chemistry 11.* The Division will continue to build on the strength of its junior high school science list with the publication of *SCIENCEFOCUS 7* and *SCIENCEFOCUS 8* for Alberta. Our mathematics list will continue to grow with the publication of *McGraw-Hill Mathematics 11* and *Mathematics 11: Making Financial Decisions.* We will also grow our social studies/history list with the publication of *Echoes from the Past: World History to the 16th Century* and *Images of Society: An Introduction to Anthropology, Sociology & Psychology.* Market research and editorial work in 2001 will focus on developing resources for Grade 12 science, mathematics and social studies/history to prepare for Ontario curriculum implementation in 2002–2003, Grades 9 and 10 Science for Alberta, as well as elective courses in business, computing, and family and consumer studies. Resource development will integrate print and electronic formats to support both teachers and learners.

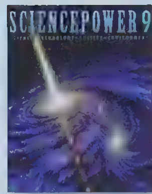
OUTLOOK

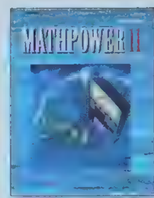
Enrolment in the school market is expected to remain stable in 2001 with the greatest uncertainty surrounding the financial support of high school elective courses affected by curriculum reform in Ontario. The broad scope of the electives publishing program at Glencoe/McGraw-Hill combined with the recent acquisition by The McGraw-Hill Companies of the Tribune line will place McGraw-Hill Ryerson in a strong position to support a wide range of courses. Additionally, the School Division expects to maintain its revenue growth through the publication of three Grade 11 science titles, two Grade 11 mathematics titles, and two Grade 11 history/social studies titles for Ontario, as well as SCIENCEFOCUS 7 *and* SCIENCEFOCUS 8 *for Alberta.*

The best-selling titles in the School Division for 2000 were as follows:

1. *Grace/Mustoe/Ivanco/Gue/Brown/Edwards/Bello,* SCIENCEPOWER™ *10*
2. *Knill/Collins/Conrad/Ferneyhough/Hamilton/Miller/Wardrop/Webb,* MATHPOWER™ *10, Ontario Edition*
3. *Erdman/Fawcett/Lim/Lo/Love/McCudden/Miller/Perivolaris/Saarimaki/Zolis,* Mathematics: Applying the Concepts 10
4. *Knill/Ablett/Ballheim/Carter/Collins/Conrad/Donnelly/Hamilton/Miller/Sarna/Wardrop,* MATHPOWER™ *12, Western Edition*
5. *Wolfe/Clancy/Jasper/Lindenberg/Lynn/Mustoe/Smythe,* SCIENCEPOWER™ *9*
6. *Knill/Ablett/Ballheim/Carter/Collins/Conrad/Donnelly/Hamilton/Miller/Sarna/Wardrop,* MATHPOWER™ *11, Western Edition*





Trade, Professional and Medical Division

Sales Performance

In 2000, the Trade, Professional and Medical Division faced a challenging Canadian retail marketplace. In particular, Chapters' book superstores altered their inventory mix and their merchandising strategy to boost sales and profits. These initiatives included a significant increase in book returns as the overall space allocated to books was reduced. As a result, these changes contributed to a reduced trade book market in Canada during 2000 compared to 1999 based on information gathered by the Canadian Publishers' Council. Our Trade, Professional and Medical Division saw a double-digit drop in revenue after six years of double-digit growth.

Although we faced a difficult year with the retail market in Canada, we enjoyed success with export sales of business and training titles, which grew 40% over the prior year. In 2000, the Trade, Professional and Medical Division continued to benefit from the 1999 acquisition of the respected Appleton & Lange medical list by The McGraw-Hill Companies, Inc. This company's titles represented 36% of Medical sales in 1999 and 48% in 2000.

Our ongoing investment in the computing category continued to pay dividends with a 91% increase in computing sales over the last three years. The business category created a number of business bestsellers, although overall sales dropped from prior year levels. Diversification of our customer base was another key initiative together with expansion of our special sales. Many of the projects started in 2000 will be completed in 2001.

The Division continued to benefit from the 1999 acquisition of the respected Appleton & Lange medical list.

Our ongoing investment in the computing category continued to pay dividends with a 91% increase in computing sales over the last three years.

Product Development

The "New Book Alert" program, introduced in September, is an "opt-in" online notification service that provides customized information on new product releases to interested professionals. The Division's website was redesigned for launch in the first quarter of 2001.

Business Uncertainties

Trilogy's takeover of Chapters Inc. is expected to bring together Indigo's 15 superstores with Chapters' 77 superstores and 200 mall stores. Some store closings are anticipated and the Competition Bureau, which is reviewing the merger, might make other demands. Store closings and rationalization of operations will likely prolong the inventory returns experienced during 2000.

Canadians are increasingly buying books online. Despite copyright and territory restrictions, it will be virtually impossible to protect Canadian territory rights with the proliferation of global online retailers. Amazon.com plans to launch its Canadian site, Amazon.ca, in May 2001. We will continue to work closely with online retailers to maximize sales of our product through these channels.

Canadian Publishing Program

In 2000, the Division focused on the management, small business, training, personal finance and general interest categories. Fifteen titles were published, including a bestseller in the management category: *No Guts No Glory* by David Olive, which profiled Canadian business leaders including Laurent Beaudoin and John Roth.

McGraw-Hill Ryerson began a relationship with *Canadian Living* with the spring launch of *Healthy Together: A Couple's Guide to Midlife Wellness*, by Christine Langlois. *Healthy Together* was well received by a diverse group of customers including chains, independents, and non-traditional channels (e.g. Shoppers Drug Mart).

Building on McGraw-Hill's strengths in the global marketplace, the Division continued to focus on publishing titles with export sales potential. In 2000, training and business titles were well received, including *Brain Teasers* and *More Games Teams Play*, both by Leslie Bendaly, and *The Relationship-Based Enterprise* by Ray McKenzie (and DMR Consulting's Center for Strategic Leadership).

OUTLOOK

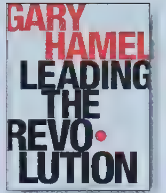
Fiscal 2001 promises to be another challenging year, particularly for the Trade business. Changes will occur as Trilogy strives to combine two book chains into a stronger single operating unit. Despite the uncertain Trade market, several factors point to a strong 2001. First, The McGraw-Hill Companies, Inc. recently acquired a strong general interest list, NTC Contemporary, as part of its Tribune acquisition. This diverse non-fiction list includes foreign language, cooking, health, sports, business, careers, and self-help titles and will open doors for us with both traditional and non-traditional customers. Second, the release of the latest edition of Harrison's Principles of Internal Medicine, 15th Edition, will provide growth. Harrison's is the leading internal medicine textbook worldwide, and with its online product extensions will account for more than 25% of Medical revenue in 2001.

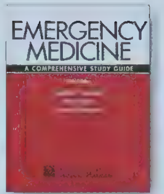
In 2001, the Trade, Professional and Medical Division plans to increase its presence in the market and improve profitability through the following initiatives:

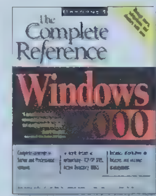
- Continuing to invest in strategic computer and business book marketing;
- Implementing an online marketing plan;
- Leveraging the NTC Contemporary acquisition;
- Diversifying our customer base.

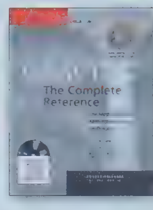
Some of the best-selling titles in the Trade, Professional and Medical Division were as follows

1. Tapscott, Ticoll, Lowy, Digital Capital
2. Hamel, Leading the Revolution
3. Meyers, A+ All-in-One Certification Exam Guide, Second Edition
4. Tintinalli, Kelen, Stapczynski, Emergency Medicine, Fifth Edition
5. Ivens, Windows 2000 Complete Reference
6. Loney, Koch, Oracle 8i The Complete Reference









Chenelière/McGraw-Hill

McGraw-Hill Ryerson Limited and, subsequently, Chenelière/McGraw-Hill, have been publishing Higher Education and School titles for Québec and for French-language colleges, universities, and schools throughout Canada since 1965. Its titles are market leaders in accounting, management, marketing, science, humanities, social studies, math, and computer sciences. Many of these titles have been recognized with special awards from the Ministry of Education in Québec. Its 2000 list included over 500 active titles. While many of its titles are original works for DLC, approximately 40% are translations and adaptations of American and Canadian works.

Following an alliance established in 1995 between Les Éditions de la Chenelière (DLC), McGraw-Hill Ryerson Limited, and The McGraw-Hill Companies, Inc., "DLC," a non-related, privately held, independent company based in Montréal, publishes French-language products under the joint Chenelière/McGraw-Hill imprint.

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Sales History and Growth

Chenelière/McGraw-Hill has structured its publishing program to meet the needs of French-speaking students and educators across Canada. With a full-time complement of 65 employees, DLC publishes and translates resources for grades K–12 as well as college and university. Some fifty School titles per year, as well as a dozen Higher Education titles, are marketed in Québec and across Canada. Through co-publishing and distribution agreements with European publishers, DLC's Higher Education titles are also available in France, Belgium, Switzerland, and French Africa.

Chenelière/McGraw-Hill also markets English-language Higher Education titles from McGraw-Hill Higher Education (MHHE) as well as McGraw-Hill Ryerson titles to French-language institutions in Québec and New Brunswick. More recently, Chenelière/McGraw-Hill has begun marketing the new medical list and the Schaum series, published in Europe by various McGraw-Hill operations. DLC's fully bilingual order desk, located in Montréal, handles all customer service activities. Fulfillment services are provided by McGraw-Hill Ryerson's facility in Whitby.

Leading Educational Solutions

Starting with publishing for the Québec school market, Chenelière/McGraw-Hill has adopted a decidedly Canadian perspective over the years by publishing resources specifically adapted to the needs of the Francophone and French-immersion markets across Canada. The latest project, an ambitious collaboration with McGraw-Hill Ryerson's School Division, involves a Canadian first: a team of 18 people assembled to publish McGraw-Hill Ryerson's new science program *SCIENCEPOWER™* 7–10 simultaneously in French and English. This bilingual team, working in close collaboration between Montréal and Whitby, achieved its second important milestone: the publication of *OMNISCIENCES* 10 in time for the implementation of the new Ontario curriculum. The challenge for 2001 is the simultaneous publication of Grade 11 resources for the Ontario curriculum in Mathematics, Biology, and Chemistry, *Echos from the Past*, and *ScienceFocus* 7 and 8 for Alberta.

Business Uncertainties

Chenelière/McGraw-Hill is working in a very competitive market given the small number of French-speaking students enrolled in Canada and it is thus important to broaden sources of revenue. Accordingly, Chenelière/McGraw-Hill has maintained a relationship with Ediscience International in Paris, GM Diffusion in Switzerland, Context Edition in Belgium, and the Centre d'Exportation du Livre Francais (C.E.L.F.) for Africa and the Middle East. Chenelière/McGraw-Hill has a history of co-publishing many titles with prestigious French publishers. These titles have also been translated into Portuguese, Finnish, and Spanish. To maintain its international market presence, Chenelière/McGraw-Hill will continue to look for titles that appeal to the European marketplace.

OUTLOOK

In the School market, Chenelière/McGraw-Hill will build on the past collaboration of the Montréal and Whitby offices and provide Grade 11 resources for Ontario for September 2001.

Chenelière/McGraw-Hill will add 15 Higher Education-level titles to its active frontlist during 2001, bringing the total to over 170 titles. The alliances with McGraw-Hill Higher Education and McGraw-Hill Ryerson Higher Education Division are mutually beneficial since the translation of existing textbooks is a very important component of Chenelière/McGraw-Hill's publishing plan.

This year, Chenelière/McGraw-Hill will publish McGraw-Hill Ryerson's Ross, Fundamentals of Corporate Finance, *Third Canadian Edition. This allows Chenelière/McGraw-Hill to publish a fully-adapted French-Canadian edition of a best-selling book. Chenelière/McGraw-Hill also works closely with The McGraw-Hill Companies' International Rights department. Some of the titles to be published in the next year are:*

1. *Stevenson,* Production/Operations Management, *Sixth Edition*
2. *O'Leary,* Computing Essentials, *Fourth French Edition*
3. *Allen,* Student Atlas of World Politics, *Fourth Edition*

Value-added Support

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ials.

These Quality Standard initiatives, now completed, have raised the standard of internal performance.

Editorial, Design, and Production Department

McGraw-Hill Ryerson's Editorial, Design, and Production (EDP) Department provides project management, financial analysis, and technical production and manufacturing services to the Editorial Divisions for a wide variety of product offerings. In 2000, EDP oversaw the production of 168 new titles and 181 reprints. The Department is organized along divisional lines, providing support for the Higher Education, School, and Trade Divisions. Budgets are set based on preliminary planning sessions with Editorial and Marketing to determine end-product specifications and schedules. Once the development process is complete, the project is handed over to Production. Strict adherence to established budgets and timelines is stressed throughout the production process.

Business alliances with key vendors allow for competitive pricing and ensure the highest quality of materials for McGraw-Hill Ryerson's products. These alliances help to guarantee the timely delivery of products to the Company's warehouse for distribution to customers. In addition, a close working relationship with its parent company provides McGraw-Hill Ryerson with the opportunity to leverage the buying powers and established best practices of a multi-billion dollar corporation.

Customer Satisfaction Division

Building on the strength of prior years, the Customer Satisfaction Division, comprising the Customer Service, Inventory, and Warehouse departments, embarked on a series of Quality Standard Initiatives. These initiatives focused on reviewing and improving methods of work performance to guarantee a high level of service to customers.

In Customer Service, programs such as call monitoring, EDI/Web services, final response on first contact, customer surveys, and scripting were undertaken to enhance and simplify the customer's experience in conducting business with McGraw-Hill Ryerson. As well, the automation of manual processes maximized the value added for customers in the performance of daily functions in the Inventory Group. This included data maintenance functions, nightly back order generation, expediting, and access/query analysis.

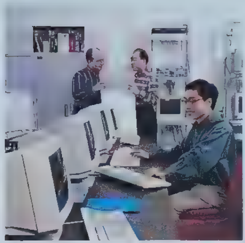
Finally, in the Warehouse sector, where quality is dependent upon the timely and accurate receipt of products and processing of orders, initiatives were undertaken in quality of shipment testing, enhanced tracking, performance monitoring, and flow analysis.

These initiatives, now completed, have raised the standard of internal performance, yielding a service level that meets or exceeds customers' expectations.

Human Resources

During the year, McGraw-Hill Ryerson reinforced commitments to its culture and values through performance management/compensation/reward programs and employee development and assistance programs.

The Company has made significant gains in improving various aspects of its compensation programs. In February 1998, the first bonus payment was paid to all employees who were not on an individual incentive plan to allow them to share in the Company's improved performance resulting from their efforts. Payouts have been made in every year since then in which the company has exceeded its profit goals.



The new Business Intelligence system allows employees self-service access to all aspects of sales information.

Information Systems and Technology (IS&T)

With the implementation of Business Intelligence, McGraw-Hill Ryerson staff are able to gain new insight into information that had previously been inaccessible. The new Business Intelligence system allows employees self-service access to all aspects of sales information. This enables employees to analyze large volumes of data quickly and simply, resulting in new insights and better decisions.

The IS&T group has continued to fulfill our commitment to provide robust technology solutions to support key business strategies. Our commitment to a simple and flexible infrastructure ensures that we are able to respond quickly to changing business opportunities.

Implementation of Sales Force Automation for the Higher Education Division provides a tool for sales staff to manage opportunities and campaigns more effectively and with greater accuracy.

Our Higher Education website has been completely redesigned to provide simple and quick access to information. Internally, we have provided content management tools to allow staff to keep our web presence new, fresh, meaningful, and interesting.

Trade, Professional and Medical's newly designed website is soon to be launched with School Division's following quickly behind. These new sites, when bound together by our redesigned McGraw-Hill Ryerson corporate site, provide a strong brand, excellent content, and new functionality.

Management's Discussion and Analysis

Financial Results (In Thousands of Dollars)

	2000	1999	1998	1997	1996
Net sales	74,985	75,992	66,732	60,920	42,986
% (decrease)/increase	(-1.3%)	13.9%	9.5%	41.7%	13.7%
Higher Education sales	50.2%	46.7%	50.3%	53.4%	43.9%
School sales	32.7%	28.4%	28.0%	26.1%	30.8%
Trade, Professional and Medical sales	17.1%	24.9%	21.7%	20.5%	25.3%
Imported product sales	54.6%	56.4%	56.3%	58.5%	54.7%
Canadian & adaptations sales	42.7%	36.9%	37.9%	36.7%	38.7%
Agency sales	2.7%	6.7%	5.7%	4.8%	6.6%
Total expenses	69,309	66,924	58,999	54,072	41,154
% of net sales	92.4	88.1	88.4	88.8	95.7
Net income	4,639	5,849	5,207	4,448	1,617
% of net sales	6.2	7.7	7.8	7.3	3.8
Total assets	73,821	74,689	62,348	55,005	55,103
Return on assets %	6.3%	7.8%	8.4%	8.1%	2.9%

Revenue

Despite growth during 2000 in two of the Company's three divisions, sales declined by 1.3% to $75.0 million, down from a record high of $76.0 million in 1999. Sales in the Higher Education Division continued to grow in 2000, increasing to $37.6 million or 6.1% greater than the prior year's total of $35.5 million. Similarly, the School Division's expansion continued with sales reaching $24.5 million or 13.5% higher than 1999's $21.6 million. Sales in the Trade, Professional and Medical Division declined from 1999's record level of $18.9 million to $12.8 million.

Despite little overall growth in the post-secondary market, the Higher Education Division was able to accelerate its growth for a third consecutive year and increase its market share. Continued strong funding in several of the provinces along with additional penetration into new subject areas fueled the strong School sales growth. The Trade market was dramatically impacted by heavy returns and reduced purchasing by Chapters/Pegasus. As a result the Trade, Professional and Medical Division suffered a setback in its rapid growth of recent years.

The significant differences in growth among the divisions fueled a swing in the product mix in 2000. Product imported from The McGraw-Hill Companies, Inc., more dominant in the Trade market, declined to 54.6% from 56.4% of total sales. The trade decline along with the loss of a major product line caused agency sales to drop from 6.7% to 2.7%. Canadian product and Canadian adaptations, which are significant components of the School and Higher Education Divisions, increased from 36.9% to 42.7%.

Expenses

In 2000 total expenses increased 3.6% to $69.3 million from $66.9 million in the prior year. Expenses as a percentage of operating revenue increased to 92.4% from 88.1%. In an environment of significant sales returns, the Company's operations were severely stretched during the year and accordingly expense reductions could not be achieved despite the drop in net revenues.

Operating expenses comprising cost of product and royalties decreased to $37.5 million from $38.2 million. This 1.9% drop was consistent with the decline in sales. Editorial, selling, general, and administrative expenses increased 5.1% to $26.8 million from $25.5 million in 1999 as a result of the continued expansion of sales and marketing efforts and expansion in editorial activities related to a growing local publishing program. As a percentage of sales, these expenses increased from 33.5% in 1999 to 35.7%, reflecting the increased levels of operational activity referred to above.

Prepublication amortization increased 37.3% to $3.0 million from $2.2 million in the prior year. This increase resulted from the continuing investment in the publication programs that have fueled the ongoing growth in sales of domestic product. Depreciation expense grew by 10% to $1.4 million from $1.3 million in 1999 with increased investment in information technology infrastructure.

Liquidity and Financial Resources (In Thousands of Dollars)

	2000	1999	1998	1997	1996	1995
Cash / (Bank indebtedness)	**8,133**	16,253	8,381	3,953	1,534	(1,808)
Cash flow from operations	**(294)**	12,312	7,305	5,390	7,058	1,959
Prepublication investment	**5,561**	2,474	1,537	1,526	2,821	1,530
Capital asset additions	**1,185**	968	541	1,046	496	754
Total assets	**73,821**	74,689	62,348	55,005	55,103	48,176
Working capital	**26,099**	26,122	21,831	16,614	11,595	10,871
Accounts receivable	**15,866**	15,788	13,343	8,497	9,153	6,134
Inventory	**15,214**	15,650	11,440	13,270	13,377	11,885

The Canadian dollar deteriorated throughout the year, leading to a foreign exchange loss of $0.4 million versus a $0.4 million gain in 1999.

In 2000, the Company changed its method of accounting for income taxes to comply with new Canadian Generally Accepted Accounting Principles requirements. Prior to the current year, deferred tax balances were not adjusted for changes in tax rates. Under the new method, deferred tax assets and liabilities are adjusted to reflect the rates at which they will likely be realized. As a result of reductions in both the Federal and Ontario corporate income tax rates and the rate at which capital gains are included in income for tax purposes, the effective tax rate declined to 35.2% from 44.1% in 1999.

Cash declined in the year by 49.7% to $8.1 million from $16.3 million in 1999. The decline was caused by the continued investment in prepublication costs and an increase in amounts owed to the Company by related companies.

Expansion in the grade levels, provincial curricula, and subject areas being addressed by the School Division publishing program led to the bulk of the 124.8% increase in prepublication costs.

Capital asset purchases of $1.1 million relate to furniture and technology equipment purchases. These purchases are in line with the continuing goal of maximizing the efficiency and effectiveness of office space and the leveraging of new technologies.

For reasons reviewed above, the Company's balance sheet has remained stable in comparison with the prior year. Continued attention to asset management has resulted in consistent liquidity and non-cash asset turnover, excluding inter-company receivables and payables, improved to 1.32 from 1.27 turns per annum.

Accounts receivable was unchanged from the prior year. The Company's collection performance is closely monitored in accordance with credit terms and industry standards.

Inventory levels declined by 2.6% in the year, consistent with the decline in sales. Levels of saleable inventory represent a consistent number of months' supply on hand in the current and prior years.

Risks and Uncertainties

Educational Funding Constraints

Funding constraints by both federal and provincial governments to all levels of educational institutions have presented a major hurdle to the Canadian publishing industry over the last several years. In an effort to meet deficit-reduction targets, all levels of government have focused on significant spending cuts, resulting in higher tuition fees, a reduced number of faculty, increased instances of photocopying, and reduced textbook purchases. In this environment, union action by teachers has become commonplace.

To overcome the impact of funding reductions, the Company has made great strides in researching, developing, and marketing innovative learning resources that meet specific learning needs of students while reducing the number of required teacher-contact hours.

While educational funding has been stable in most provinces since 1988, it is uncertain whether the Province of Ontario will maintain the levels of funding of recent years.

Format and Delivery of Future Learning Resources

The advent of new media is affecting the publishing industry in many ways: sales of non-print materials have begun to increase as a percent-

age of total sales; competition is appearing from non-traditional publishers, such as high-technology firms; and, most importantly, the format of future learning resources remains uncertain. In response to these evolving technology changes, all the Company's divisions are developing innovative non-print products to enhance or replace existing product. Further investment in the market will be dependent on demand, cost, revenue management, and acceptance of new technology by our customers.

Competition from Foreign-Based Online Bookstores

The advent of online bookstores in the United States has created an avenue for Canadian consumers and students to purchase published product directly from foreign retailers, thus eliminating the Canadian markets and distributors of the product. In particular, students will be capable of accessing a very large source of second-hand product not previously experienced in Canada. Canadian online bookstores, on the other hand, have proven to be effective retailers of McGraw-Hill Ryerson product and the Company is aggressively pursuing this market segment.

Dependency on Superstores

Book retailing in Canada has changed significantly over the past four years with the dramatic expansion of the Chapters and Indigo chains and their potential consolidation. While these entities account for less than 25% of McGraw-Hill Ryerson's total business, they are exerting increasing influence in the marketplace.

Foreign Exchange

A significant portion of the Company's purchases is incurred in US dollars. As a result, major exchange-rate fluctuations between the Canadian and US dollars will either positively or negatively affect the income.

	1998	1999	2000				
	Dec. 31	Dec 31	Jan. 1	Mar. 31	June 30	Sept. 30	Dec. 31
Exchange Rate	0.652	0.693	0.689	0.690	0.675	0.665	0.667

The Company prudently uses hedging products to reduce the risks associated with currency-rate fluctuations and does not speculate in the market. The Company uses zero-cost range forward contracts that fix the transaction rate to a specific trading range.

Outlook

During 2000, McGraw-Hill Ryerson continued to capitalize on the business and operational foundations laid in recent years despite the adverse effect of recent extreme volatility in the Trade market. The Company's improved local publishing program, increased array of imported product, and strengthened sales and marketing capabilities have positioned it well to achieve growth rates experienced in prior years.

The Company has made important efforts to achieve a common strategic focus. Sales, marketing, editorial, production, warehouse and fulfillment, customer satisfaction, finance, technology, and human resource functions are all working in concert to create an improved operation.

Fiscal 2001 is projected to be a stable year with the return to some level of normalcy in the Trade market. The Company will benefit from the expansion of its product offerings into discipline areas from which it was absent. This has been a necessary but expensive proposition.

Like most markets in this age of rapid change, McGraw-Hill Ryerson's markets are only partially predictable. Funding availability, product format, and delivery methods are all subject to considerable change. To meet these challenges, McGraw-Hill Ryerson continues to invest in people and technology. Our goal is to meet the informational needs of our customers by developing innovative educational solutions, providing unparalleled customer satisfaction, and fully utilizing the vast array of resources of The McGraw-Hill Companies, Inc.

Management Report

To the Shareholders of McGraw-Hill Ryerson Limited

The financial statements and all the information in this Annual Report were prepared by the management of McGraw-Hill Ryerson Limited, which is responsible for their integrity and objectivity.

These financial statements — prepared in conformity with appropriately chosen, Canadian Generally Accepted Accounting Principles, and including amounts based on management's best estimates and judgements — present fairly McGraw-Hill Ryerson's financial condition and the results of the Company's operations. Other financial information given in this report is consistent with these financial statements.

McGraw-Hill Ryerson's management maintains a system of internal accounting controls designed to provide reasonable assurance that the financial records accurately reflect the Company's operations and that the Company's assets are protected against loss. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of these controls should not exceed the expected benefits in maintaining these controls. These controls further assure the quality of the financial records in several ways: the careful selection and training of management personnel; maintaining an organizational structure that provides an appropriate division of financial responsibilities; and communicating financial and other relevant policies through the Corporation.

The financial statements in this report have been audited by Ernst & Young LLP, Chartered Accountants, in accordance with Canadian generally accepted auditing standards. The independent accountants were retained to express an opinion on the financial statements, which appears on page 24.

McGraw-Hill Ryerson's Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee, which meets periodically with management and the independent accountants to ensure that each group is carrying out its respective responsibilities. In addition, the independent accountants have full and free access to the Audit Committee and meet with it with no representatives from management present.

John D. Dill
President and Chief Executive Officer

Gary A. Krikler, C.A., M.B.A.
Vice President and Chief Financial Officer

Auditors' Report

To the Shareholders of McGraw-Hill Ryerson Limited

We have audited the balance sheets of McGraw-Hill Ryerson Limited as at December 31, 2000 and 1999, and the statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in accordance with Canadian Generally Accepted Accounting Principles.

Ernst & Young LLP

Chartered Accountants

Toronto, Canada
January 14, 2001

Balance Sheets

(In Thousands of Dollars)

As at December 31	2000	1999	1998
Assets			
Current			
Cash	$8,133	$16,253	$ 8,381
Accounts receivable (net of allowance for book returns)			
2000—$4,634, 1999—$3,374, 1998—$3,200)(note8)	15,866	15,788	13,343
Due from affiliated companies (note 2)	7,197	2,694	4,561
Inventories	15,214	15,650	11,440
Prepaid expenses and other	736	710	943
Income taxes receivable	427	–	–
Future income tax asset (note 5)	1,611	1,245	1,260
Total current assets	49,184	52,340	39,928
Capital assets, net (note 3)	19,533	19,791	20,135
Other assets, net (note 4)	5,104	2,558	2,285
	$73,821	$74,689	$62,348
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued charges	7,245	7,981	6,005
Income taxes payable	–	1,897	438
Due to affiliated companies (note 2)	15,840	16,340	11,654
Total current liabilities	23,085	26,218	18,097
Future income tax liability (note 5)	1,845	2,465	3,096
Total liabilities	$24,930	$28,683	$21,193
Shareholders' Equity			
Share capital			
Authorized 5,000,000 common shares			
Issued and outstanding 1,996,638 common shares	1,997	1,997	1,997
Retained earnings	46,894	44,009	39,158
Total shareholders' equity	48,891	46,006	41,155
	$73,821	$74,689	$62,348

On behalf of the Board

H. Ian Macdonald, O.C., LL.D., Director

John D. Dill, Director

(See accompanying notes to financial statements.)

Statements of Income and Retained Earnings

(In Thousands of Dollars except Per Share Data)

Years ended December 31	2000	1999	1998
Revenue			
Sales, less returns	$74,985	$75,992	$66,732
Other	1,486	1,399	1,624
	76,471	77,391	68,356
Expenses			
Operating (note 2)	37,512	38,206	33,616
Editorial, selling, general, and administrative	26,831	25,486	21,492
Amortization (note 7)	4,458	3,513	3,501
Foreign exchange loss (gain)	411	(429)	250
Interest	97	148	140
	69,309	66,924	58,999
Income before income taxes	7,162	10,467	9,357
Provision for (recovery of) income taxes (note 5)			
Current	4,183	5,234	4,764
Deferred	(1,660)	(616)	(614)
	2,523	4,618	4,150
Net income for the year	4,639	5,849	5,207
Retained Earnings			
Retained earnings, beginning of year	$44,009	$39,158	$34,750
Application of change in accounting policy (note 5)	(674)	–	–
Dividends paid to shareholders (2000—$0.54 per share;1999—$0.50 per share; 1998—$0.40 per share)	(1,080)	(998)	(799)
Retained earnings, end of year	$46,894	$44,009	$39,158
Net income per share	$2.32	$2.93	$2.61

(See accompanying notes to financial statements.)

Statements of Cash Flow

(In Thousands of Dollars)

Years ended December 31	2000	1999	1998
Operating Activities			
Net income for the year	$4,639	$5,849	$5,207
Add (deduct) non-cash items			
Amortization	4,458	3,513	3,501
Future income taxes	(1,660)	(616)	(614)
	7,437	8,746	8,094
Net change in non-cash working capital balances related to operations	(7,731)	3,566	(789)
Cash provided by operating activities	(294)	12,312	7,305
Investing Activities			
Prepublication costs	(5,561)	(2,474)	(1,537)
Additions to capital assets	(1,185)	(968)	(541)
Cash used in investing activities	(6,746)	(3,442)	(2,078)
Financing Activities			
Dividends paid to shareholders	(1,080)	(998)	(799)
Cash used in financing activities	(1,080)	(998)	(799)
Net (decrease) increase in cash during the year	(8,120)	7,872	4,428
Cash, beginning of year	16,253	8,381	3,953
Cash, end of year	$8,133	$16,253	$8,381

(See accompanying notes to financial statements.)

Notes to Financial Statements

(Tabular amounts are in Thousands of Dollars)

1. Summary of Significant Accounting Policies

The accompanying financial statements of McGraw-Hill Ryerson Limited (the "Company") have been prepared in accordance with Canadian Generally Accepted Accounting Principles. The most significant accounting policies are as follows:

Inventories

Inventories are stated at the lower of cost, on a first-in, first-out basis, and net realizable value.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis at the following annual rates:

Building 2-1/2%
Computer equipment 20% to 33-1/3%
Furniture, fixtures and equipment 10% to 20%

Prepublication costs

Prepublication costs include direct labour, preparation, and plate costs, which are amortized from the year of copyright over the lesser of five years and the expected sales life of the related publication.

Contracts, copyrights, trademarks, agency rights, and goodwill

Costs of contracts, copyrights, trademarks, agency rights, and goodwill are being amortized over the lesser of their useful lives or forty years. The Company periodically reviews the carrying value of goodwill to determine if any impairment exists based upon projected, undiscounted net cash flows of the related operations.

Foreign exchange translation

Foreign cash balances and amounts receivable from or payable to foreign affiliates are translated into Canadian dollars at the rates of exchange prevailing at the year end. Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rates at the date of the transactions. Any resulting gains or losses are included in net income for the year.

Book returns

The Company accepts the return of books from its customers in accordance with normal trade practice and accrues an estimate for anticipated returns in its accounts.

Pension costs

The Company has a defined contribution pension plan for all employees for which the Company's contributions are expensed as incurred.

Income taxes

In fiscal 2000, the Company adopted the liability method of tax allocation for accounting for income taxes as provided for in the new recommendations of The Canadian Institute of Chartered Accountants. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

2. Related Party Transactions

The Company is a subsidiary of The McGraw-Hill Companies, Inc., which owns 70.1% of the outstanding common shares. Under long-standing arrangements, the Company, in the normal course of business, purchases books and educational materials from the parent company and various international subsidiaries of The McGraw-Hill Companies, Inc. These purchases are recorded at their exchange amounts. Terms of payment vary from 10 days with cash discount to 180 days, net from transaction date, and are non-interest bearing.

Accounts with related parties are summarized as follows:

	2000	1999	1998
Due from affiliated companies			
Parent	$2,973	$1,612	$2,346
Common-controlled enterprises	4,224	1,082	2,215
	$7,197	$2,694	$4,561
Due to affiliated companies			
Parent	$15,833	$16,243	$11,565
Common-controlled enterprises	7	97	89
	$15,840	$16,340	$11,654

Related party transactions are summarized as follows:

	2000	1999	1998
Purchases			
Parent	$34,123	$32,877	$26,912
Common-controlled enterprises	78	105	69

3. Capital Assets

Capital assets consist of the following:

	2000			1999			1998		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	$ 3,598	$ —	$ 3,598	$ 3,598	$ —	$ 3,598	$ 3,598	$ —	$ 3,598
Building	17,680	4,145	13,535	17,656	3,712	13,944	17,656	3,281	14,375
Computer equipment	3,308	2,234	1,074	2,440	1,645	795	2,284	1,719	565
Furniture, fixtures and equipment	4,693	3,367	1,326	4,400	2,946	1,454	4,162	2,565	1,597
	$29,279	$9,747	$19,533	$28,094	$ 8,303	$19,791	$27,700	$ 7,565	$20,135

4. Other Assets

Other assets consist of the following:

	2000			1999			1998		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Prepublication costs	$13,779	$ 9,080	$ 4,699	$ 9,701	$ 7,561	$ 2,140	$ 8,968	$7,115	$1,853
Contracts, copyrights, trademarks, agency rights, and goodwill	540	135	405	540	122	418	540	108	432
	$14,319	$9,215	$5,104	$10,241	$7,683	$2,558	$ 9,508	$7,223	$2,285

5. Income Taxes

Effective January 1, 2000, the Company changed its method of accounting for income taxes from the deferral method to the liability method of tax allocation as required by The Canadian Institute of Chartered Accountants' Section 3465, *Accounting for Income Taxes*. As permitted under the new rules, prior-year financial statements have not been restated. The cumulative effect of this change as of January 1, 2000, was to decrease opening retained earnings by $674,000.

Under the liability method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Significant components of the Company's future tax assets and liabilities as at December 31, 2000 are as follows:

Current future tax asset	
Allowance for book returns	1,611
Non-current future tax liabilities (assets)	3,038
Pre-publication costs	(1,193)
	1,845

The reconciliation of income taxes attributable to continuing operations computed at the statutory tax rates to income tax expense (benefit) is:

	Liability method 2000	Deferral method 1999
Tax at combined federal and provincial tax rates	3,159	4,670
Manufacturing and processing profits deduction	(199)	(282)
Reduction in future income taxes resulting from statutory tax rate reduction	(598)	—
Other	161	230
	$2,523	$4,618

6. Lease Commitments

The Company has entered into operating leases, primarily for equipment, for which the estimated future minimum annual payments are as follows:

2001	421
2002	180
	$ 601

7. Amortization

Amortization consists of the following:

	2000	1999	1998
Capital assets	$1,443	$1,312	$1,456
Prepublication costs	3,002	2,187	2,031
Contracts, copyrights, trademarks, agency rights, and goodwill	13	14	14
	$4,458	$3,513	$3,501

8. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, amounts due from/to affiliated companies, accounts payable and accrued charges and income taxes payable. At December 31, 2000 and 1999, the fair value of the Company's financial instruments approximates their carrying value due to the short-term maturity of these instruments. The Company's five largest customers make up approximately 54% [1999 – 49%] of the accounts receivable balance and approximately 15% [1999 – 20%] of net sales.

9. Segmented Disclosure

The Company is structured on a market-focus basis and operates in three primary market areas: post-secondary education, including universities, community colleges, and career colleges ("Higher Education"); elementary and secondary schools ("School"); and trade, professional and medical, including retailers, distributors, libraries, non-traditional booksellers, direct marketing and the medical sector ("Trade, Professional and Medical").

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

	2000					1999				
	Higher Education	School	Trade Professional and Medical	Warehouse Fulfillment and Support	Total	Higher Education	School	Trade Professional and Medical	Warehouse Fulfillment and Support	Total
Sales, less returns	$37,649	$24,489	$12,847	$ —	$74,985	$35,494	$21,582	$18,916	$ —	$75,992
Amortization	1,761	1,482	36	1,180	4,459	1,497	874	40	1,102	3,513
Provision for income taxes	—	—	—	2,523	2,523	—	—	—	4,618	4,618
Divisional contribution (loss)	7,341	7,259	666	(10,627)	4,639	7,433	6,565	3,091	(11,240)	5,849
Total expenditures for additions to capital assets and goodwill	250	81	42	812	1,185	277	93	43	555	968
Segment assets	16,371	12,483	8,814	18,023	55,691	16,497	8,100	12,095	17,079	53,771

Reconciliations

Segment Assets

	2000	1999	1998
Segment assets	$55,691	$53,771	$47,170
Unallocated assets			
Cash and cash equivalents	8,133	16,253	8,381
Due from affiliated companies	7,197	2,694	4,561
Non-divisional prepaid expenses and other	357	308	544
Current Future income taxes	1,611	1,245	1,260
Income taxes receivable	427	—	—
Contracts, copyrights, trademarks, agency rights, and goodwill	405	418	432
Total assets	$73,821	$74,689	$62,348

10. Supplemental Cash Flow Information

Components of changes in non-cash working capital balances include:

	2000	1999
Accounts receivable	(78)	(2,445)
Inventories	436	(4,210)
Prepaid expenses	(26)	233
Income taxes receivable/payable	(2,324)	1,459
Due from related parties	(4,503)	1,867
Accounts payable and accrued charges	(736)	1,976
Due to related parties	(500)	4,686
Supplemental Cash Flow Information		
Interest paid	97	136
Income taxes paid	5,137	4,322

Selected Financial Data

The following selected financial data of the Company, as it relates to the eight years ended December 31, 2000, is derived from the audited financial statements of the company.

Comparative Statement of Income (000s)

Years ended December 31	2000	1999	1998	1997	1996	1995	1994	1993
Revenue	**$76,471**	$77,391	$68,356	$61,883	$44,163	$38,544	$38,281	$37,881
Expenses	**69,310**	66,924	58,999	54,072	41,154	36,450	38,237	36,594
Income Taxes	**2,522**	4,618	4,150	3,363	1,392	472	18	553
Income from continuing operations	**$4,639**	$5,849	$5,207	$4,448	$1,617	$1,622	$26	$734
Income from continuing operations per share	**$2.32**	$2.93	$2.61	$2.23	$0.81	$0.81	$0.02	$0.37
Loss from discontinued operations net of tax	—	—	—	—	—	—	$(7,345)	$(1,145)
Net income (loss)	**$4,639**	$5,849	$5,207	$4,448	$1,617	$1,622	$($7,319)	$(411)
Net income (loss) per share	**$2.32**	$2.93	$2.61	$2.23	$0.81	$0.81	$(3.67)	$(0.21)
Dividends paid per share	**$0.54**	$0.50	$0.40	$0.20	$0.20	$0.20	$0.15	$0.60

Balance Sheet Data

Total Assets	**$73,821**	$74,689	$62,348	$55,005	$55,103	$48,176	$50,843	$58,341

The following table illustrates comparative results for the four quarters of 1999 and 1998.

Quarterly Income Statement ($000)

	Quarter Ended March 31			Quarter Ended June 30			Quarter Ended Sept. 30			Quarter Ended Dec. 31			Full Year		
	2000	1999	1998	2000	1999	1998	2000	1999	1998	2000	1999	1998	2000	1999	1998
Total Revenue	**9,450**	9,289	7,128	**11,687**	14,005	12,576	**36,112**	32,114	29,181	**19,222**	21,983	19,471	**76,471**	77,391	68,356
Net Income (Loss) for the period	**(590)**	(223)	(425)	**(295)**	243	427	**5,304**	4,511	3,751	**220**	1,317	1,454	**4,639**	5,849	5,207
Net Income (Loss) per share	**(0.30)**	(0.11)	(0.21)	**(0.15)**	0.12	0.21	**2.66**	2.26	1.88	**0.11**	0.66	0.73	**2.32**	2.93	2.61

President Club Awards

The Gold Award for Outstanding Contribution

Selection Criteria:

- Selflessly acts for the benefit of others in the Company
- Unfailingly dedicated to fulfilling and exceeding the needs of the organization
- Acts to support McGraw-Hill Ryerson's culture and values
- Impacts organizational results significantly

AWARD: GOLD COIN + $1,000 + ENGRAVED PLAQUE

2000 Winner — Alex Dimech, Finance Department

The Norma Christensen Editorial Excellence Award

Selection Criteria:

The person or team who best embodies

- The drive and perseverance to create great product with success in the marketplace
- An uncompromising commitment to quality
- The highest editorial standards

AWARD: $1,000

2000 Winner — Jane McNulty, School Division

The Seary Award for Outstanding Sales

Selection Criteria:

- Sales success in meeting and exceeding the annual sales target
- Tenacity in the pursuit of meeting customer needs
- Working as an outstanding team player to keep their division successful
- Dedication to the culture of McGraw-Hill Ryerson
- Unfailing good humour

AWARD: $1,000

2000 Winner — Barry Smith, School Division

The Heather Somerville Marketing Excellence Award

Selection Criteria:

The person or team who

- Develops, plans, and executes a successful marketing effort
- Demonstrates initiative, creativity, perseverance, and competitive drive

AWARD: $1,000

2000 Winner — Rhondda McNabb, Higher Education Division

The Theresa Courneyea Outstanding Service Award

Selection Criteria:

- The person or team that demonstrates the commitment to quality, teamwork, and creativity in exceeding the needs of customers

AWARD: $1,000

2000 Winner — Russell Potter, IS&T Department

The Murray Lamb Creativity and Innovation Award

Selection Criteria:

- The person or team that develops or effectively implements a creative or innovative idea, product, program, or process that significantly benefits the Company

AWARD: $1,000

2000 Winner — The Business Intelligence Core Team: Brenda Arseneault, Higher Education; Lawrence Hourihan, Trade, Professional and Medical; Patrick Manley, Finance; David Cook, Russell Potter, Tim Walthert and Allan Wong, IS&T.

Throughout the year, 64 Employee Recognition Awards were presented to employees who made a significant contribution to the Company and are recommended to management by anyone in the Company.

Scholarships

The Pat Vidler Scholarship was presented to five very deserving children of employees in 2000. They were:

ANDREA BISRAM, daughter of Rita Bisram, Marketing Assistant, Trade, Professional and Medical Division. Andrea attends University of Toronto, Scarborough Campus and is in the Co-op Arts Management Program. She is planning to pursue a career in Creative Advertising and Graphic Design.

CATHERINE CHALLONER, daughter of Mary Agnes Challoner, Copy/Developmental Editor, School Division. Catie attends Seneca College, where she is in her third year of nursing. She will be writing her RN exams in June 2001. Future plans include taking nursing jobs in different parts of the continent and returning to York University to complete her degree and become a nurse practitioner.

LORI DYER, daughter of Craig Dyer, Senior Sales Representative, Higher Education Division. Lori is attending University of Toronto Faculty of Music. She is in "Performance" and plays the trumpet. Her interest lies in classical music although she enjoys playing and listening to jazz as well. Lori's eventual goal is to play trumpet in a symphony orchestra located anywhere in the world.

JILLIAN SMITH, daughter of Barry Smith, Eastern Regional Sales Manager, School Division. Jillian attends Dalhousie University in Halifax. She is enrolled in the four-year Bachelor of Science Nursing program. Upon completion of her degree, Jill plans to work in Emergency Medicine and to continue her studies towards a master's degree in nursing.

GORDON TOOLEY, son of Linda Arsenault, Shipper/Packer and stepson of Simon Arsenault, Senior Supervisor, Warehouse. Gordon attends Durham College's Tool and Die program. When college is finished, he would like to begin his Tool and Die apprenticeship and eventually achieve certification.

Directors
(as at April 19, 2001)

Robert J. Bahash (1988)
Executive Vice President
Chief Financial Officer
The McGraw-Hill Companies, Inc.
New York

James G. Barnes (1988)
Professor of Marketing
Memorial University of Newfoundland
St. John's

J. Mark DesLauriers (2001)
Partner
Osler, Hoskin & Harcourt
Barristers & Solicitors
Toronto

John D. Dill (1993)
President and Chief Executive Officer
McGraw-Hill Ryerson Limited
Whitby

Brian Heer (2001)
President
International Publishing Group
The McGraw-Hill Companies, Inc.
Maidenhead, England

Robert E. Evanson (1998)
President
McGraw-Hill Education
The McGraw-Hill Companies, Inc.
New York

H. Ian Macdonald, O.C., LL.D. (1985)
President Emeritus and Professor
York University
Toronto

Manon R. Vennat, O.C. (1988)
Chairman
SpencerStuart
Montréal

Officers
(as at April 19, 2001)

H. Ian Macdonald, O.C, LL.D.
Chairman of the Board (1996)

John D. Dill
President and Chief
Executive Officer (1993)

Gary A. Krikler
Executive Vice President, Chief Financial Officer
and Secretary-Treasurer (1994)

Petra M. Cooper
President (1997)
Higher Education Division

Nancy L. Gerrish
President (1999)
School Division

Marshall I. Morris
Executive Vice President (1996)

Carl Posluns
Executive Vice President (1994)

Clive G. Powell
Executive Vice President (1997)

Julia O. Woods
President (1994)
Trade, Professional and
Medical Division

Officers: Front Row: [illegible] Fran M. Cooper Middle Row: Julia O. Woods, Carl Posluns, John D. Dill, Marshall L. Morris Back Row: Clive G. Powell, Gary A. [illegible]

Shareholder and Corporate Information

Executive Offices

McGraw-Hill Ryerson Limited
300 Water Street
Whitby, Ontario L1N 9B6
Telephone: (905) 430-5000
Facsimile: (905) 430-5020
http://www.mcgrawhill.ca

Corporate and Shareholder Information

Gary A. Krikler
Secretary-Treasurer
Telephone: (905) 430-5032

Annual and Special Meeting of Shareholders

Kensington Room
Le Royal Meridien King Edward Hotel
Toronto, Ontario
Tuesday, June 12, 2001
at 11:00 a.m.

Exchange Listings

The Toronto Stock Exchange
Stock Symbol: MHR

General Counsel

Osler, Hoskin & Harcourt
Barristers & Solicitors
Toronto

Auditors

Ernst & Young LLP
Chartered Accountants
Toronto

Bankers

The Bank of Nova Scotia

Registrar and Transfer Agent

Investors are encouraged to contact our Transfer Agent and Registrar, CIBC Mellon Trust Company, for information regarding their security holdings. They can be reached at:

CIBC Mellon Trust Company

P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9

AnswerLine™:

(416) 643-5500 or 1-800-387-0825
(Toll Free throughout North America)
Facsimile: (416) 643-5501

Website: www.cibcmellon.ca

Email: inquiries@cibcmellon.ca

This report has been printed on recyclable acid-free papers.

Editor: Julie van Veen
Production Co-ordinator: Susanne Penny
Investor Relations: Joyce Lloyd/Sonja McQueen
Designer: Dianna Little
Executive Photos: Rodney Daw
Technical Art: Greg Devitt

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McGraw-Hill Ryerson's 2000 Corporate Contribution Programs

McGraw-Hill Ryerson Limited believes Canadians will flourish in communities that are healthy, well-educated, culturally rich, and socially secure. The Company will support programs that increase the abilities of people in our communities to learn, to grow intellectually, to master new skills, and to maximize their individual talents for school, work, and community.

Matching Gift Program

The Company will match any employee's financial gift to any non-profit Canadian organization that supports education, learning, and literacy up to a maximum of $2,000 per employee per year (including the United Way matching contributions). In 2000, the Company matched five employee gifts for a total of $2,150.

United Way Program

McGraw-Hill Ryerson will match any employee's United Way contribution. When an employee contributes a day's pay to the United Way, he/she may take a paid day off work to perform volunteer work to support the activities of any non-profit organization or a worthy project in the community. In 2000, the Company matched employee contributions of $9,599.16.

Employee Volunteer Support Program

When an employee participates, on a regular basis, for a year or more, in a qualified program of volunteer support through schools and non-profit organizations (education, health or fitness, and social services) and has an ongoing commitment of at least fifty hours a year, McGraw-Hill Ryerson will support the program with a $300 contribution. In 2000, the Company supported five organizations for a total of $1,500.

Focused Support

Council for Canadian Unity	$2,500
Kwantlen University College	$1,000
Saint Mary's University	$1,000

*There were also other donations given for $500 or less.